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New Issue

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State of Washington

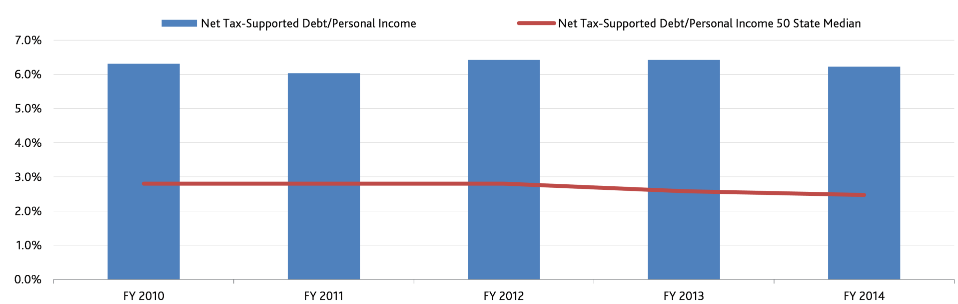
New Issue - Moody's assigns Aa1 to $673M Washington State GO refunding bonds Series R-2016B & C; outlook stable

Summary Rating Rationale

Moody's Investors Service has assigned Aa1 ratings to the State of Washington's Various Purpose General Obligation Refunding Bonds, Series R-2016B, and Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2016C. The Series R-2016B and R-2016C bonds are expected to be issued in the amounts of $529 million and $144 million, respectively. Following the issuance of these bonds, the state will have approximately $18.6 billion of general obligation bonds outstanding, including bonds additionally secured by fuel taxes and tolls, all rated Aa1.

Washington's Aa1 general obligation rating incorporates the state's sound management tools such as its quarterly consensus revenue forecasting process and demonstrated willingness to address budget shortfalls, along with an economy that is improving and expected to out-perform the nation over the long term. Revenue trends are positive, supported by employment gains and improvement in the state's housing market, and available reserves are increasing. These strengths are tempered by education spending mandates, exposure to the cyclical aerospace industry and other export markets, and above average debt ratios. Frequent voter initiative activity adds budget challenges although the state legislature has a history of responding effectively to maintain budget balance.

Exhibit 1
Washington's debt levels exceed Moody's 50-state medians.



Source: Moody's Investors Service US state debt medians reports

Credit Strengths

» Institutionalized governance practices such as consensus revenue forecasting, multi-year revenue and expenditure projections, and timely budget adoption

» Strong demographic trends

» Satisfactory overall liquidity levels maintained in pooled resources

» Healthy pension funding levels and modest retiree health insurance liability

» Increasing available reserves

Credit Challenges

» Significant future increases required in K-12 education funding

» Exposure to cyclical commercial aerospace industry and export market

» Above-average debt ratios

» Voter initiative activity adding element of fiscal uncertainty

Rating Outlook

Washington's rating outlook is stable, reflecting economic gains that are boosting revenues, an improving reserve position, and budget balancing solutions that are largely recurring. We expect that the state will continue to address any budget gaps that emerge, as it has in the past, and, over time, absorb the substantial increase in mandated basic education funding. Economic concentration in some industries that are historically volatile poses longer-term credit risk.

Factors that Could Lead to an Upgrade

» Sustained trend of structural budget balance, plus maintenance of strong reserve levels

» Economic expansion and improved industry diversification

» Reduction of debt ratios to levels closer to Moody's 50-state medians

Factors that Could Lead to a Downgrade

» Employment erosion

» Protracted structural budget imbalance

» Increased reliance on one-time budget solutions

» Deterioration of the state's cash position

Key Indicators

Exhibit 2

Washington has rebuilt fund balances since the recession; debt levels consistently exceed Moody's medians

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Fund Revenues (000s)	14,645,913	16,252,763	16,099,012	17,067,211	17,765,292
Balances as % of Operating Fund Revenues	-3.8%	-0.7%	0.8%	2.4%	4.2%
Net Tax-Supported Debt (000s)	17,712,354	17,677,697	19,425,533	20,386,128	20,422,165
Net Tax-Supported Debt/Personal Income	6.3%	6.0%	6.4%	6.4%	6.2%
Net Tax-Supported Debt/Personal Income 50 State Median	2.8%	2.8%	2.8%	2.6%	2.5%
Debt/All Governmental Funds Revenue	53.1%	50.6%	56.4%	56.2%	52.7%
Debt/All Governmental Funds Revenue 50 State Median	23.4%	22.7%	24.3%	23.8%	23.0%
Adjusted Net Pension Liability/All Govt Funds Revenue	28.5%	32.7%	25.2%	43.5%	N/A
Adjusted Net Pension Liability/All Govt Funds Revenue 50 State Median	57.1%	45.1%	63.9%	60.3%	N/A
Total Non-Farm Employment Change (CY)	-1.3%	1.3%	1.6%	4.3%	2.8%
Per Capita Income as a % of US (CY)	106.0%	105.3%	106.5%	106.6%	107.5%

Source: State audited financial statements with Moody's Investors Service adjustments; Moody's Investors Service US state debt and pension medians reports; US Bureau of Labor Statistics, US Bureau of Economic Analysis.

Recent Developments

In its November revenue forecast, the state projected that, although the rate of economic growth in the state has slowed, revenue for the current, 2015-17 biennium will be a modest $113 million higher than forecasted in September. Total revenue for the biennium is now projected to be $37.2 billion, an increase of 10.5% over the 2013-15 biennium. The governor's supplemental budget for the current biennium proposes only modest spending changes.

Detailed Rating Considerations

Economy and Tax Base

Washington State benefits from a high-value-added, but often cyclical, commercial aircraft industry; a fast growing information technology industry; and above average per capita income and household wealth. Large agriculture and timber sectors are vulnerable to volatile commodity prices and export demand. Officials indicate that a significant and growing share of the state's exports go to China, with China accounting for 22.8% of total exports in 2014.

The state's unemployment rate declined to 5.3% in November, compared to 6.3% one year earlier. The unemployment rate in the Seattle area fell to 3.8%. Personal income in the state grew by 5.4% in 2014, compared to 3.9% for the US, but growth slowed in the first two quarters of 2015. Housing construction, driven by the Seattle area, was particularly strong in the first quarter of 2015. Transportation exports (primarily Boeing aircraft) were down 1.9% in the third quarter of 2015, compared to the same period in 2014. Exports other than transportation equipment dropped by 12.4%, largely due to the stronger dollar and economic weakness overseas. The state's economic forecasts expect continued steady economic growth, with increasing employment in most sectors.

Financial Operations and Reserves

Driven by economic growth, state revenues have grown steadily since the recession, albeit at a relatively moderate rate. On a GAAP basis, the state's non-federal operating fund revenues grew at a compound annual rate of 4.9% from fiscal 2010 through 2014. In its June 2015 forecast, the state projected that General Fund revenues for the fiscal 2015 will be 5.4% higher than 2014, and will increase by 3.8% and 5.1% in fiscal 2016 and 2017, respectively. The projections are generally higher than those of earlier forecasts.

Due to rising revenues and expenditure controls, reserves, which fell to negative levels during the recession, have been gradually rebuilt. On a GAAP basis, available reserves, which consist of Unassigned General Fund Balance plus the state's Budget Stabilization Account increased from a negative $107 million (0.7% of revenues) at the end of fiscal 2011 to a positive $751 million (4.2% of revenues) at the end of fiscal 2014. In the June forecast, the state projected that total budget-basis reserves will increase to $1,423 million at the end of fiscal 2015, including $910 million in General Fund unrestricted ending balance and $513 million in the Budget Stabilization Account. This increase would bring reserves close to pre-recession levels.

The enacted budget for the 2015-17 biennium includes a significant increase in K-12 education funding in response to the State Supreme Court's ruling in the "McCleary" case. The budget also includes additional funding for higher education. In conjunction with the approval of the budget, the legislature suspended for three years Initiative 1351 which would have required additional increases in K-12 funding. Based on the enacted budget and the June forecast, the state projected that the ending balance at the end of the biennium will total $1,237 million, including $343 million in the General Fund unrestricted ending balance and $894 million in the Budget Stabilization Account.

Subsequent to the adoption of the 2015-17 budget, the Supreme Court ruled that the state had still not complied fully with its ruling in the McCleary case and imposed a fine on the state of $100,000 per day.

LIQUIDITY

The state's overall liquidity is sound and has improved notably over the last four years with the improvement in GAAP-basis financial position. Average daily balances in the Treasury and Treasurer's Trust Fund were $4.3 billion for the 12 months from August 2014 through July 2015. The state does not issue cash flow notes.

Debt and Pensions

DEBT STRUCTURE

Washington's debt ratios are more than twice Moody's 2015 50-state median level; net tax-supported debt as a percentage of personal income is 6.2%, compared with Moody's 50-state median of 2.5%. Despite the significant increase in total debt outstanding during the previous decade, the debt-to-personal income ratio has remained fairly stable due to Washington's strong personal income growth. Washington's net tax-supported debt per capita ($2,892) is more than twice the national median of $1,012. Annual debt service costs relative to revenue available for debt service (Moody's calculation) was also relatively high at 9.8% in fiscal 2014 versus a median of 5.3%.

DEBT-RELATED DERIVATIVES

The state has no variable rate debt and no debt-related derivatives.

PENSIONS AND OPEB

While debt ratios are above average, the state's aggregate pension funding is relatively strong. Based on the Washington's fiscal 2013 pension data, Moody's has calculated that the overall retirement systems' adjusted net pension liability (ANPL) was 43.5% of governmental revenues, well below the 50-state median of 60.3%. Other pension ratios such as ANPL to personal income, GDP, and population are similarly below the medians.

In Washington, retiree benefits are set as part of the biennial budget process and funded on a pay-as-you-go-basis. As of January 1, 2015, the most recent date for which a full valuation was prepared, the actuarial accrued liability attributable to the state (after retiree contributions) was $5.274 billion. The annual required contribution (ARC) for fiscal year 2014 was $354 million, about 1.4% of the state's total governmental revenues, excluding federal aid.

Management and Governance

The state has strong governance practices including a quarterly consensus revenue forecasting process, multi-year revenue and expenditure projections, timely budget adoption, and a demonstrated willingness to address budget shortfalls. Although frequent voter initiative activity can create budget challenges, the state legislature has broad powers to amend or suspend voter-approved initiatives.

Legal Security

The Series R-2016B bonds are general obligations of the state, to which the state has pledged its full faith, credit and taxing power. The Series R-2016C bonds are also general obligations, but are additionally secured by and expected to be paid from motor vehicle fuel taxes.

Use of Proceeds

Proceeds of the Series R-2016B and R-2016C bonds be used to refund outstanding bonds for debt service savings.

Obligor Profile

Washington is the thirteenth largest state by population, at 6.9 million. Its state gross domestic product is fourteenth largest. The population is wealthy, with per capita personal income equal to 107.5% of the US level and a poverty rate in the bottom third among states.

Methodology

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

WASHINGTON (STATE OF)

Issue	Rating
Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2016C	Aa1
Rating Type	Underlying LT
Sale Amount	$144,000,000
Expected Sale Date	01/20/2016
Rating Description	General Obligation
Various Purpose General Obligation Refunding Bonds, Series R-2016B	Aa1
Rating Type	Underlying LT
Sale Amount	$529,000,000
Expected Sale Date	01/20/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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